



Linda S. Adams  
Secretary for  
Environmental Protection

# Air Resources Board

Mary D. Nichols, Chairman  
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Arnold Schwarzenegger  
Governor

September 21, 2007

Barry R. Wallerstein, D.Env.  
Executive Officer  
South Coast Air Quality Management District  
21865 Copley Drive  
Diamond Bar, California 91765-4178

Dear Dr. Wallerstein:

As you are aware, the California Air Resources Board (ARB) and the Department of Finance Office of State Audits and Evaluations (Department of Finance) recently conducted a follow-up audit of the South Coast Air Quality Management District's (District) implementation of the Carl Moyer Memorial Air Quality Standards Attainment Program (Carl Moyer Program). That follow-up audit was scheduled as a check point in our monitoring of the District's progress in addressing deficiencies identified in ARB and the Department of Finance's 2006 audit of the District's Carl Moyer Program. The 2006 audit found that the District had not, in the past, expended Carl Moyer Program funds in a timely manner, delaying expected emission reductions from that program.

To correct that deficiency, the District agreed to carry out a mitigation strategy and to meet specified expenditure deadlines. The District's mitigation strategy has included increasing staffing levels, shortening contract deadlines, establishing mechanisms to more quickly fund back-up projects, and improving communication between program staff and finance staff.

For this follow-up audit, ARB and the Department of Finance worked in close coordination but employed different methods and looked at different aspects of the District's operations. This letter discusses ARB's portion of the follow-up audit. The Department of Finance will report separately.

ARB's follow-up audit, which began on June 5, 2007, and concluded with an exit interview on August 1, 2007, concentrated on reviewing the District's progress in meeting expenditure deadlines. ARB staff also examined current District practices regarding paying claims and reporting expenditures to the ARB. Specifically, ARB audit staff reviewed cumulative expenditures of funds awarded to the District from fiscal years

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1998/1999 through 2004/2005 to ensure the expenditure deadline of July 1, 2007 had been met. Current District practices were evaluated by reviewing invoices from 29 projects that reflected a full range of project types, funding years, and funding sources such as the Carl Moyer Program, match funds, earned interest, and other funds authorized by Assembly Bill 923. ARB staff also reviewed District expenditure tracking sheets, used to report to the ARB and to reconcile with District finance records, for accuracy and consistency.

The results of ARB's portion of the follow-up audit show that, on a cumulative basis, the funds of concern were expended by the July 1, 2007, deadline, getting the District back on track to achieving the expected emission reductions in a timely manner. This reflects the effectiveness of the District's efforts in carrying out its mitigation strategy.

ARB staff also reviewed District expenditure tracking sheets, used to report to the ARB and to reconcile with District finance records, for accuracy and consistency. ARB staff did uncover some errors in the District's expenditure tracking sheets and the District is in the process of working with ARB to make the needed corrections.

We are requiring two main actions on the District's part. First, to ensure the District is meeting the next challenge of expending the increased funding level that began in the 2005/2006 fiscal year, almost a three-fold increase from the previous year's Carl Moyer Program allocation, the District needs to continue to submit quarterly reports of expenditures for at least another year - until October 1, 2008. We are confident that the District is up to the challenge and will work closely with your staff to ensure continued success.

Second, the District shall submit, by October 1, 2007, up-to-date project specifications and emission reduction calculations for all projects funded since the 1998/1999 fiscal year using Carl Moyer Program funds, earned interest funds, local match funds, and other funds authorized by Assembly Bill 923. While the District has previously submitted this type of project information to ARB, we have found the data to be inaccurate since many projects have been modified.

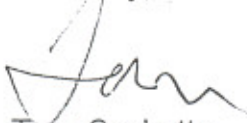
While we are requiring those two actions at this time, please note that the Department of Finance has not yet released the results of its portion of the follow-up audit. Depending on their findings, ARB and/or the Department of Finance may require additional actions on the part of the District as appropriate.

As a formality, I'd like to remind you that the District has 30 calendar days from the date of this letter to provide a written response, after which time this letter and your response will be made public and posted on ARB's Carl Moyer Program website. We encourage the District to also provide public access to these documents on its website and to present them to its Governing Board.

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We are encouraged by the District's progress thus far and appreciate the efforts you and your staff have made toward the success of the Carl Moyer Program. We look forward to continue working with you to ensure this crucial incentive program's future success in improving air quality. If you have any questions, please contact me at (916) 322-2892, or contact Mr. Robert H. Cross, Chief, at (626) 575-6807.

Sincerely,



Tom Cackette  
Acting Executive Officer

cc: Mr. Chung Liu  
Deputy Executive Officer  
South Coast Air Quality Management District

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